

Study tests motivational techniques

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Every year, U.S. companies spend billions on incentives for salespeople, and although incentives can help boost sales figures, the associated costs cut into the bottom line in a big way.

Noah Lim, an associate marketing professor at the University of Wisconsin-Madison's Wisconsin School of Business, is shedding light on sales incentives that could help managers devise incentive programs with better returns on investment.

Lim and Hua Chen, an assistant professor of marketing at the University of Mississippi School of Business Administration, set up a series of experiments with two-person teams and individual [salespeople](#) to ask a simple question: Do group incentives actually work?

The answer: Lim found that under the right circumstances, incentives for a team outperform incentives given to individuals.

The finding challenges conventional economic wisdom, which suggests that group incentives allow some sales agents to get a "free ride" on the efforts of others in the group. Salespeople often push back against group incentive plans and are sometimes uncomfortable when their commissions and compensation are contingent on the efforts of others.

"Salespeople are individualistic in nature, so group incentives often represent a big change for them," Lim says.

The effectiveness of group incentives depends on three factors,

according to Lim. These factors include the sales team's social connectedness, the design of the incentives and the type of informational feedback they receive.

When two-person teams were allowed to socialize briefly, they increased their commitment to the group incentives, which led to better sales results. These socialized two-person teams outperformed other individuals, as well as two-person groups that did not initially socialize face-to-face.

Group incentives also worked better when individual performance counted more than the performance of the group. "You want to design a system where most of your reward still comes from your own work," says Lim. Still, the group component must be significant enough for members to feel dependent on each other.

And in terms of informational feedback, Lim found that less might be more. When socialized group members received feedback on how hard their teammates were working, their own effort surprisingly diminished. Lim suggests that when feedback about effort is unavailable, [group members](#) may worry that their own contributions will be underestimated by their teammates. Consequently, they may work harder to guarantee better results to avoid the prospect of letting each other down.

Lim says group incentives may not work the same for groups larger than two, since individuals may not feel as personally connected to all of their teammates. However, the desire to uphold a positive reputation may also motivate individuals to work harder out of a fear of letting down a larger number of people.

More information: Noah Lim and Hua Chen (2014) When Do Group Incentives for Salespeople Work?. *Journal of Marketing Research*: June 2014, Vol. 51, No. 3, pp. 320-334. [journals.ama.org/doi/abs/10.15 ...](http://journals.ama.org/doi/abs/10.15...)

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